

Introduction

Local and national economic conditions have a significant impact on the well-being of King County residents and on King County's finances and capacity to address public service needs. While the County has an important and relatively stable funding source in property taxes, it also has major revenue sources -- sales taxes and interest earnings -- that depend directly on changing economic conditions. Further, the demand for certain services provided by the County, such as regulation of new construction, is also driven by economic conditions. As a result, projections of local economic conditions are a major element in the County's annual budgeting process.

In the past, the Puget Sound region has experienced economic changes that have paralleled those represented by the national business cycle, oftentimes exacerbated by the ups and downs of the business cycle at Boeing. The effects of the national recession in 1990 - 91 were extended locally by Boeing layoffs which continued through mid-1995. Despite the loss of 35,000 jobs at Boeing, the rest of the local economy added enough employment (most notably in the software industry) to keep total employment growth positive. In 1996 Boeing employment levels began rebounding and therefore the outlook for revenue growth has improved based on the economic expansion which is accompanying that.

The following information provides more detail on our general economic forecast for key indicators, and on our basis for revenue estimates, as well as our use of indicators in expenditure projections. We feel confident that our forecasts are conservative and will serve as a sound basis for funding decisions.

General Forecast

We developed our economic forecast for 1998 by surveying local economists, reviewing published State and national prognoses, and tracking recent economic developments. This review was to develop a general scenario of the economic trends expected for 1998-2000 and to make forecasts of selected indicators that would be consistent with the scenario. The following indicators were selected for evaluation and are used in our economic and budget projections, based on their applicability to County finances and their availability as indicators commonly used by local and national economists:

Inflation rates: Consumer Price Index (CPI) inflation rates are evaluated and projected to estimate future revenue generation, as well as to project selected expenditure account requirements; the national CPI-w is used for projecting most County employee cost-of-living adjustment settlements.

Interest rates: Short-term interest rates are used for forecasting interest earnings on investments of available County cash balances; long-term interest rates are relevant for estimating debt service costs applicable to bond proposals, and for projecting mortgage rates, which affect building activity levels.

Population and personal income growth rates: These indicators are used for forecasting several revenues, including local sales tax, and are used, as appropriate, for assessment of workload indicators, from jail population levels to swimming pool usage to road maintenance and capital needs.

Building permit volumes: The levels of residential and commercial construction activity in King County are used in forecasting property taxes related to new construction, real estate excise taxes, and the workload level and revenues for several County agencies, particularly the Development and Environmental Services Division and the Surface Water Management Division. This indicator applies to unincorporated King County activity only, and therefore is on the decline as annexations and incorporations occur.

The following table summarizes the annual percent of change (or, in the case of interest rates, the

ECONOMIC AND REVENUE FORECAST

absolute level) we are forecasting for selected economic indicators for 1998-2000, as well as a 1997 estimate and historical data for 1995-1996.

Economic Indicator (% change)	Actual 1995	Actual 1996	Estimate 1997	Projections		
				1998	1999	2000
Inflation (National CPI-w)	2.6	2.9	2.2	2.5	2.7	3.0
Personal Income (Puget Sound)	6.2	6.9	8.7	6.3	6.2	6.0
Population Growth (Puget Sound)	1.3	1.5	1.9	2.2	2.1	1.5
short-term Interest Rates						
King County Investments	6.2	6.2	6.0	6.0	6.0	6.0
K.C. Building Permit Applications						
Residential	(15.3)	(15.5)	1.9	5.1	N/A	N/A
Commercial	(6.9)	(8.0)	.7	(12.8)	N/A	N/A

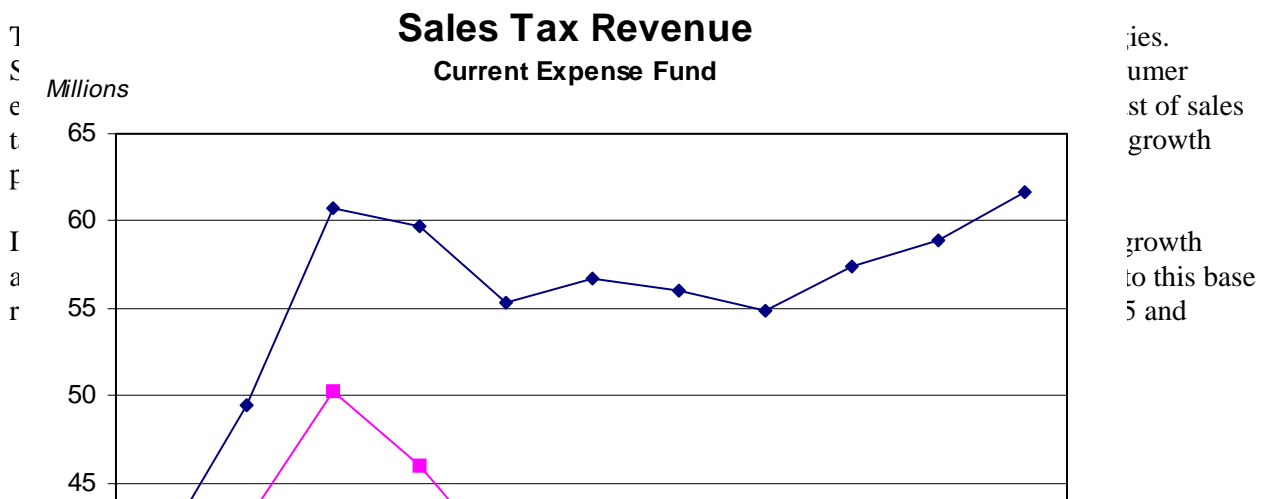
Inflation

The budget includes a 1998 cost-of-living adjustment for County employees of 2.0%. Typically the COLA is calculated as 90% of the September over September national CPI-w, however the minimum which can be granted County employees is 2.0%. In other aspects of the budget we have assumed that local inflation will not increase above the 2.5 percent rate in 1998.

Consumer Spending: Personal Income/Population

Consumer confidence is a driving force in any economic recovery and is generally reflected in increased spending for durable goods. Consumer spending is particularly important in King County's revenue projections because it impacts sales tax revenues, which will comprise 16 percent, or \$65.6 million, of all General Fund revenues in 1998.

In addition to the foregoing indicators related to consumer spending, changes in the tax rate have also impacted receipts. The following graph reflects this. The dramatic increase in receipts from 1983 through 1989 was due to enactment of the local option tax rate at 0.2 percent in 1984, an additional 0.1 percent in 1986, and another 0.2 percent in 1988. Sales tax receipts have declined since 1989 due to the incorporation of the cities of SeaTac and Federal Way (1990), Burien and Woodinville (1993), Newcastle in 1994 and Shoreline in 1995. The sales tax estimate for 1998 includes the loss of revenue due to the incorporations of Maple Valley and Covington.

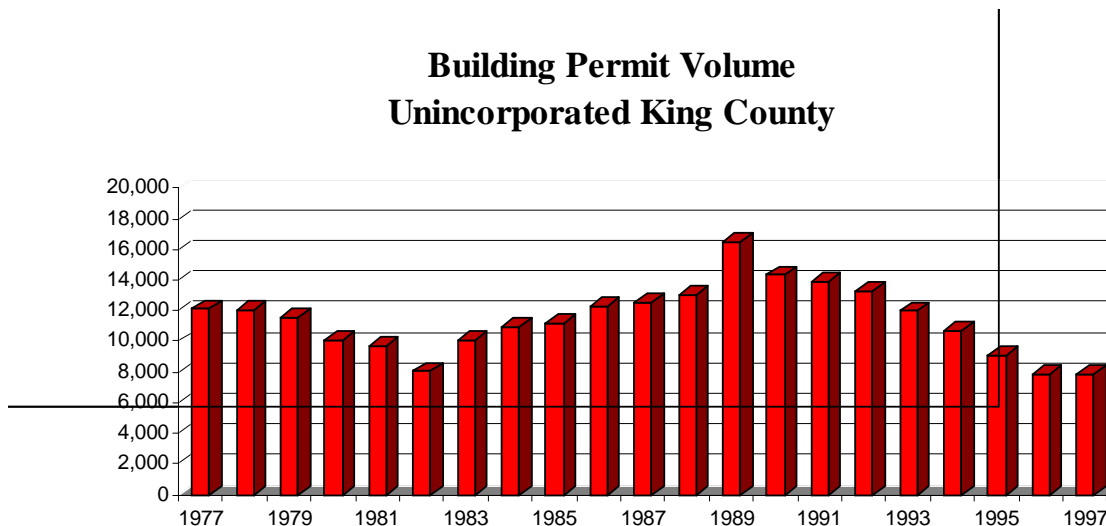


1996, for instance, the State legislature passed exemptions on sales tax applied to the purchase of equipment by certain manufacturers.

Construction Activity

Trends in the construction industry affect significant sections of the County's budget. Because of the availability of undeveloped land in unincorporated areas, a large portion of all residential construction occurring in the County is regulated by the Department of Development and Environmental Services. The workload levels and revenue for this Department are highly responsive to cyclical changes in the construction industry. There is another long-term, downward, trend for this activity, however, due to continuing annexations and incorporations occurring in King County. Other County agencies, such as Roads, Surface Water Management, and Public Health, also regulate certain construction and development-related activities and are directly impacted by such economic and structural changes. Property tax revenues, a major source of County funds, are also affected by new construction trends.

New construction activity tends to follow general economic activity, often in an exaggerated manner (see graph below).



Property Taxes

Property taxes, which make up 46 percent of Current Expense revenues, are a fairly stable source of income to King County because changes in the regular tax levies are limited by the 106 percent annual lid on increases. This limitation provides that the regular levies (i.e., non-voter approved) may be increased by no more than 6 percent over the prior year's levy, except that the value of any new construction is assessed at the prior year's levy rate and added to the 6 percent increase to set the total new levy amount. Therefore, the level and value of new construction activity is the key variable in estimating the total revenues the County can expect to receive from property taxes. The All-County levy is projected to go up by 7.3 percent in 1998, with new construction providing 1.8 percent of that increase. In other words, the base levy amount is being increased by less than the maximum 6%. A 5.5% increase is planned.

Interest Rates

ECONOMIC AND REVENUE FORECAST

Short-term interest rates respond to cyclical changes in the economy, but can also be significantly influenced by such factors as the policy of the Federal Reserve Board and requirements for federal borrowing. Rates have been quite stable since 1995 and we are forecasting not much change from that due to fairly moderate economic growth and stable inflation rates.

Our forecast of short-term rates to be earned on county investment balances are as follows:

<u>1997 3rd Qtr.</u>	<u>1997 4th Qtr.</u>	<u>1998 Annual Average</u>
6.0 %	6.0 %	6.0 %

Annexations and Incorporations

Governance transitions continue in the urban areas of King County. Significant annexations occurred in 1997 to Kent, Shoreline and Des Moines. Two new cities incorporated in 1997, Maple Valley and Covington. Citizens also approved another new city in the area known as Kenmore, which will formally incorporate in August, 1998, and will be voting on proposed incorporations in Briarwood and Sammamish in 1998.

The 36 Suburban Cities now contain 43 percent of King County's population (701,600 people). Together, the cities' population is larger than the City of Seattle (536,600) and much larger than the unincorporated County (408,000). This represents a dramatic shift of constituencies in a county previously dominated by Seattle and unincorporated King County.

The revenue impacts of annexation and incorporation exceed the population impact on unincorporated King County. Many annexed areas and new cities have a commercial tax base, leaving the remaining unincorporated areas as residential communities which demand services but do not generate as much tax revenue.

King County entered into municipal service agreements with the new cities of Maple Valley and Covington. The service contracts help offset the loss of sales tax and other revenues which now accrue to the new cities.

Conclusion

King County's 1998 economic outlook has improved significantly from that of the first half of this decade. We are confident our revenue estimates remain conservative and will serve as a sound basis for funding decisions.

On the following pages the proposed Current Expense Financial Plan is presented for the years 1998 through 2000 with 1997 estimates and 1996 actuals. Following that is a more detailed discussion of operating revenues.

OPERATING REVENUES**Introduction**

A major element of King County's budget planning involves the projection of revenues to support the provision of public services and the construction of capital projects. As shown in the Revenue Tables of this book, King County's total revenues are \$2,674,503,138, of which \$1,957,751,188 are operating revenues and revenues used to pay debt service, and \$716,751,950 is revenue for capital funds.

Operating revenues for all funds are derived from these sources (see Revenue detail table in Appendix which displays revenue by fund and account class):

	<u>Revenue</u>	<u>Percent of Total 1998 Revenues</u>
(1) Taxes	\$717,634,977	36.7
(2) Licenses and Permits	16,064,790	.8
(3) Intergov. Revenues	311,392,126	15.9
(4) Charges for Services	543,716,432	27.8
(5) Fines and Forfeitures	6,300,462	.3
(6) Miscellaneous Revenues	117,739,950	6.0
(7) Other Financing Sources	<u>244,902,451</u>	<u>12.5</u>
TOTAL	\$1,957,751,188	100.0

Tables at the end of this section show comparisons of revenue receipts and estimates for 1996, 1997, and 1998 for all County revenues and for revenues to the Current Expense Fund. Note that the General Fund referred to below includes the Current Expense Fund as well as three subfunds, the Sales Tax Set-Aside, the Children and Family Services, and the Inmate Welfare Funds.

The Revenue Table in the Appendix displays the distribution of 1998 County revenues by each fund. The revenue that the County receives is deposited into one of six types of budgeted funds depending on the source of the revenue, the intended use of the revenue, legal restrictions, and priorities of the King County Executive and the King County Council, as determined in the annual budget process. The six types of King County funds are:

	<u>Revenue</u>	<u>Percent of Total 1998 Revenues</u>
(1) General Fund	408,971,222	15.3
(2) Special Revenue Funds	518,321,285	19.4
(3) Enterprise Funds	614,863,762	23.0
(4) Internal Service Funds	186,627,180	7.0
(5) Debt Service Funds	228,967,829	8.6
(6) Capital Project Funds	<u>716,751,950</u>	<u>26.7</u>
TOTAL	\$2,674,503,138	100.0

This section of the 1998 Budget Book contains major revenue highlights and descriptions of major operating budget revenues, including important assumptions used to forecast receipts for 1998. A description of the funds that receive revenues to finance County services and capital projects is presented in the Summary Section of the appendix to the budget book.

OPERATING REVENUES AND FORECAST ASSUMPTIONS

Detailed Descriptions

Description of Operating Revenues and Highlights of Forecasting Assumptions

TAXES

1997 Adopted = \$675,767,143

1998 Adopted = \$717,634,977

Total King County tax revenues supporting operating expenses and debt service are projected to be \$717.6 million in 1998, an increase of 6.2 percent over the 1997 estimate. Taxes are the largest source of revenues to King County, accounting for 36.8 percent of all operating revenues and 62.6 percent of the revenues to the Current Expense Fund. Property taxes and the retail sales and use tax are the major tax accounts. Other significant sources of tax revenues include taxes on gambling, the real estate excise tax, and the E-911 telephone excise tax.

Property Taxes: Property taxes generate more revenue than any other single source, and 1998 current year property tax receipts are projected to be about \$285 million. The table on the following page displays 1997 and 1998 property tax rates and tax levies for current year assessments. Projected receipts from current year levies are determined by collection rates which are estimated at 97 percent for the All County Levy and 96.5 percent for the Unincorporated Area Levy.

Sales Tax. Total projected 1998 sales tax revenue to the General Fund is \$65.6 million, which includes the impact of annexations and incorporations. The "base" 1998 tax receipts are projected to grow over the 1997 level of receipts by 7.0 percent. Of the total, \$3 million will be deposited to the Children and Family Services Subfund and \$3.3 million to the Sales Tax Reserve (Designated for Contingencies) Subfund. Sales tax to the General Fund is generated from the 1% local option tax in unincorporated areas and 15 percent of the 1% collected within incorporated areas.

The Criminal Justice Fund receives sales tax from the extra 1/10 of 1% county-wide tax approved by the voters and added in 1992. The total collected in the county is distributed to local jurisdictions on the basis of population after 10 percent is taken off the top and allocated to King County government. King County's total allocation will amount to approximately \$10.1 million in 1998.

The Transit Fund receives a county-wide sales tax at a rate of .6% to fund public transportation. This should total about \$146.6 million in 1998, based on a projected growth rate of 7.75%.

Real Estate Excise Tax. Revenue from a .25 percent excise tax on the value of real estate sales in unincorporated King County are deposited in a special revenue fund and used for capital projects benefiting unincorporated area residents. Real estate excise tax revenues from the .25 percent tax are estimated to be \$6 million in 1998.

In 1992 the King County Council enacted the remaining .25 percent R.E.E.T. The funds are to be used for parks in unincorporated King County. As with the first .25 percent discussed above, this tax should yield \$6 million in 1998.

OPERATING REVENUES AND FORECAST ASSUMPTIONS

Detailed Descriptions

Property Tax Levies by Fund

	1997		1998		Increase/ (Decrease)
Assessed Valuation - All County	\$126,229,349,077		\$134,582,382,686		\$8,353,033,609
Assessed Valuation - Unincorporated	\$26,352,649,669		\$26,669,597,268		\$316,947,599
	1997 Taxes	Rate	1998 Taxes	Rate	Increase/ (Decrease)
All-County Levy					
Current Expense	\$154,284,588	1.22226	\$170,470,406	1.26666	\$16,185,818
Human Services	3,155,734	0.02500	3,364,560	0.02500	\$208,826
Veterans' Aid	1,420,080	0.01125	1,514,052	0.01125	\$93,972
River Improvement	1,950,000	0.01545	1,950,000	0.01449	
InterCounty River Improvement	50,000	0.00040	50,000	0.00037	
Bond Redemption - Limited	21,210,897	0.16803	16,751,319	0.12447	(\$4,459,578)
Subtotal	\$182,071,299	1.44238	\$194,100,336	1.44224	\$12,029,037
Unincorporated Area Levy					
Public Works - Roads	\$45,598,769	1.73033	\$46,459,532	1.74204	\$860,763
Total Statutory Levy	\$227,670,068		\$240,559,868		\$12,889,800
Bond Redemption - Unlimited	38,500,000	0.30500	37,262,000	0.27687	(\$1,238,000)
EMS Levy - All County	31,570,596	0.25000	-	-	(\$31,570,596)
Farmlands Conservation Tax	7,889,334	0.06250	8,411,399	0.06250	\$522,065
Automated Fingerprint System	8,394,252	0.06650	8,949,728	0.06650	\$555,476
Regional Justice Center	31,407,581	0.24881	-	-	(\$31,407,581)
Total Property Tax Levies	\$ 345,431,831		\$ 295,182,996		(\$50,248,835)

OPERATING REVENUES AND FORECAST ASSUMPTIONS

Detailed Descriptions

LICENSES AND PERMITS

1997 Adopted = \$14,820,717

1998 Adopted = \$16,064,790

Charges for licenses and permits are imposed as a means of regulating certain private activities in King County to ensure the protection of the health, safety and welfare of the general public. State law and County ordinances provide for permit processing fees to support the costs of reviewing residential and commercial development plans and of inspecting construction sites to ensure compliance with applicable codes and regulations.

Development permit fees are the largest source of revenues from County issued permits. Revenues from these fees accrue to the Department of Development and Environmental Service, the Road Fund, the River Improvement Fund, and the Public Health Pooling Fund.

The County also issues business/occupation and non-business licenses. The County issues professional licenses for such activities as taxicabs, carnivals, fireworks stands, amusement devices, massage parlors, food handlers, and private security guards. In the category of non-business licenses, animal licenses represent the largest revenue account. Revenues from licenses and permits depend on the volume of activity and on the portion of costs to be covered by the fee. As a general rule, regulatory fees are established to recover the costs of administration, review and regulation, and enforcement.

Although the County issues motor vehicle licenses for the State, the County is paid a fee for this service by the State, and revenues from this source are included in service fee revenues.

INTERGOVERNMENTAL REVENUES

1997 Adopted = \$306,636,541

1998 Adopted = \$311,392,126

Intergovernmental contributions include: (1) reimbursements to the County for services provided to other jurisdictions; (2) direct contributions in the form of project grants; (3) State allocated revenues such as grants-in-aid for mental health and developmental disabilities, gasoline tax, and liquor taxes. These sources represents 15.9 percent of all King County operating fund revenues.

Intergovernmental payments, (1) above, are revenues from reimbursements or payments for services to other jurisdictions which result from such activities as administration of elections, provision of municipal court services, delivery of public health care, booking and custodial care of jail inmates, and provision of public defense and public safety services. Provisions and terms for reimbursements are normally stipulated in contracts or interlocal agreements. Revenues from these sources are generally expected to follow changes in costs for the services and fluctuations in the volume of activity.

OPERATING REVENUES AND FORECAST ASSUMPTIONS

Detailed Descriptions

CHARGES FOR SERVICES

1997 Adopted = \$520,262,533

1998 Adopted = \$543,716,432

Charges for Services is made up of two components, Service Fees and Intergovernmental Interfund.

Service fees account for about 28 percent of all King County operating revenues. Most of the revenues generated in King County's Enterprise funds -- Solid Waste, Airport, and Stadium -- are accounted for in this revenue category, and appear in the above figures. Likewise, Water Quality's revenue is almost entirely composed of Charges for Services, while Transit's fare revenue (a service charge) makes up only about 15% of its total revenue.

This category also includes charges for various services provided by King County which benefit specific individuals or identifiable groups of people, rather than the public as a whole. It is more equitable to charge users all or a portion of the cost of the service rather than finance the program entirely from general revenues.

Other service fees include charges for court filings; motor vehicle licensing; recreation programs; health services; spaying, neutering and sheltering of animals; recording and reproduction of public documents; and use of County facilities. Most of the fees are based on the actual costs incurred by the County in providing the services. Some fee structures, however, such as those for health and many recreation services, are set at a level below full costs in order that these programs will be accessible to a broad cross-section of people.

In the category of payments for services between County funds, there are direct payments and overhead payments. For example, the Property Services Division, a Current Expense agency, provides appraisal services, lease negotiations, and property management services to the Airport, an Enterprise Fund, which in turn reimburses the Current Expense Fund. For such general government support services as personnel, payroll, contract administration, and the like, other County funds reimburse the Current Expense Fund through an overhead allocation charge. The 1998 amount collected from other funds for Current Expense overhead is \$19 million, a decrease from 1997 due to the removal of Finance as a Current Expense agency. Finance is now an Internal Service Fund.

FINES AND FORFEITS

1997 Adopted = \$6,775,148

1998 Adopted = \$6,300,462

Revenues from fines and forfeits amount to only one-half of 1 percent of the County's total operating revenues. The largest source of revenues included here comes from assessments imposed by the District Court for traffic violations and crimes committed in unincorporated King County.

OPERATING REVENUES AND FORECAST ASSUMPTIONS

Detailed Descriptions

MISCELLANEOUS REVENUES

1997 Adopted = \$113,579,916

1998 Adopted = \$117,739,950

The miscellaneous revenue category contains sources of income that are not accounted for elsewhere. Taken together, these sources account for 6 percent of all King County operating revenues. The largest single source included here is interest income.

Investment Interest: \$13.4 million will accrue to the Current Expense Fund. Under authority provided in state law, the King County Director of Finance invests County and non-County funds not otherwise invested nor required for immediate expenditure in financial instruments designated by state statute. The forecasted 1998 average earnings rate for County investments is 6.0%.

OTHER FINANCING SOURCES

1997 Adopted: \$188,066,768

1998 Adopted: \$244,902,451

The “Other Financing Sources” category shows a significant increase due mainly to increased revenues to the debt service funds from other funds. The largest single major part of this is due to the pass-through of taxes collected for the Public Facilities District to pay bonds issued to build the new baseball stadium.

CURRENT EXPENSE REVENUE SUMMARY

	1996 Actuals	1997 Adopted	1998 Adopted
31000 TAXES	218,535,656	222,453,792	243,205,844
32000 LICENSES & PERMITS	4,192,567	4,297,300	5,159,300
33800 INTERGOVERNMENTAL PAYMENT	45,035,508	44,655,928	54,441,132
34000 CHARGES FOR SERVICES	62,270,466	65,118,793	57,621,784
35000 FINES & FORFEITS	6,767,668	6,630,934	6,223,771
36000 MISCELLANEOUS REVENUE	16,234,128	17,407,553	17,851,879
39000 OTHER FINANCING SOURCES	6,400,250	3,241,003	15,948,844
TOTAL REVENUES	359,436,243	363,805,303	400,452,554

ALL FUNDS REVENUE SUMMARY

	1996 Actuals	1997 Adopted	1998 Adopted
31000 TAXES	398,779,483	675,767,143	717,634,977
32000 LICENSES & PERMITS	9,732,606	14,820,717	16,064,790
33800 INTERGOVERNMENTAL PAYMENT	153,858,747	308,949,810	311,392,126
34000 CHARGES FOR SERVICES	232,395,755	520,262,533	543,716,432
35000 FINES & FORFEITS	7,321,118	6,775,148	6,300,462
36000 MISCELLANEOUS REVENUE	98,991,008	113,579,916	117,739,950
39000 OTHER FINANCING SOURCES	156,704,003	188,066,768	244,902,451
SUBTOTAL OPERATING & DEBT SERV. REVENUES		1,828,222,035	1,957,751,188
XXXX CAPITAL PROJECT REVENUES		631,860,597	716,751,950
TOTAL COUNTY REVENUES	1,072,922,146	2,460,082,632	2,674,503,138

Note that 1997 and 1998 numbers incorporate the former Metro units of Transit and Water Quality but the 1996 numbers do not.